

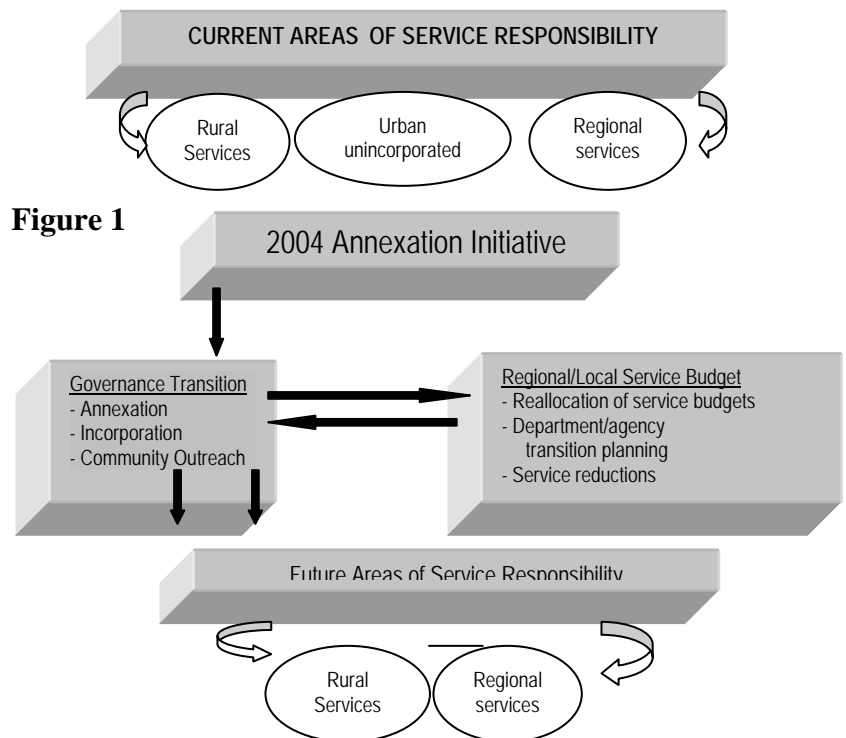
Regional Governance Transition: Annexation Initiative, 2007 Regional/Urban/Rural Service Budget Projections and Transition Planning

Introduction and Chapter Overview

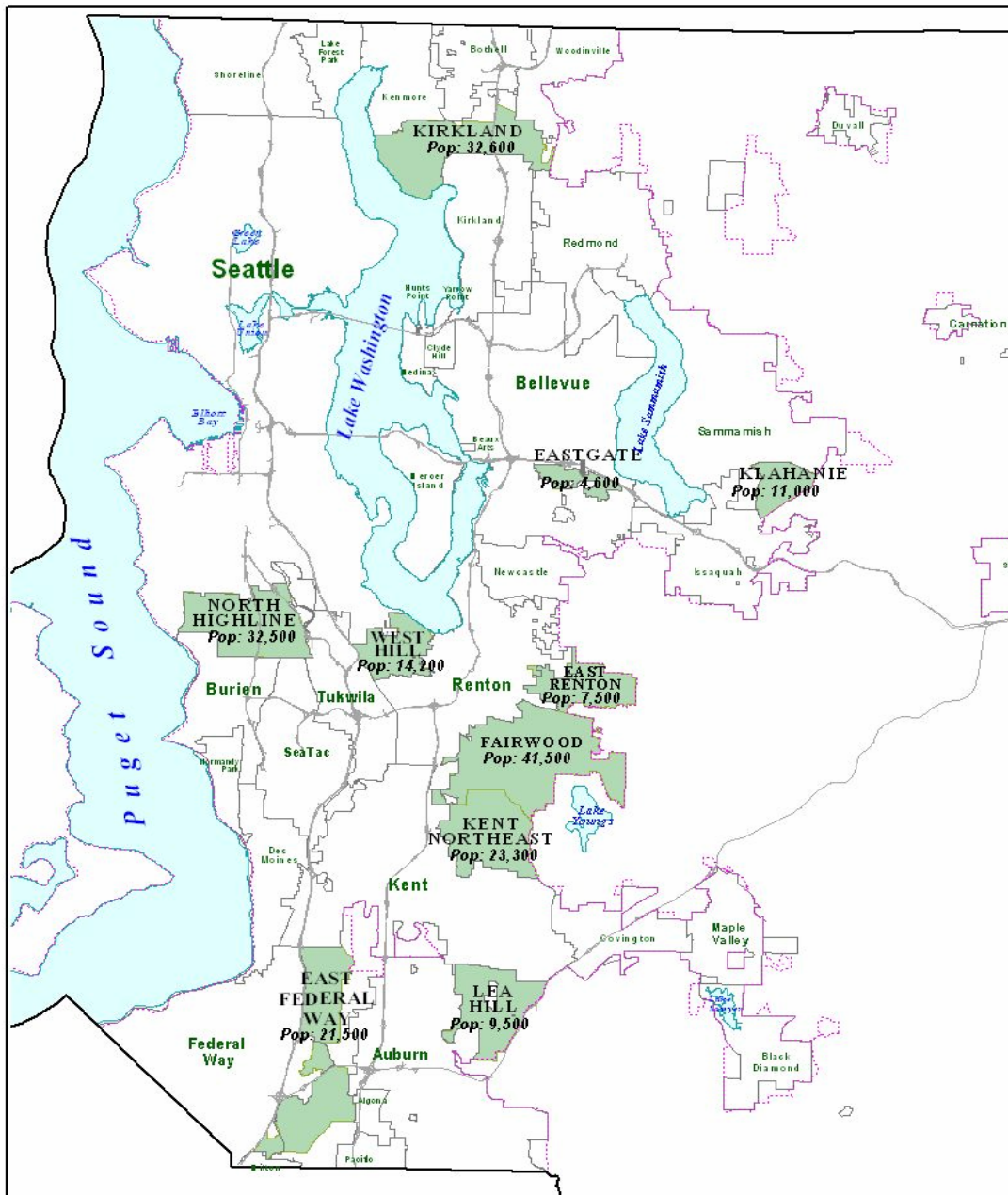
The Regional Governance Transition chapter is devoted to a discussion of major actions currently being undertaken by King County to transform itself into a true regional government (see Figure 1 below); one responsible for providing an array of mandated regional services as well as local service delivery to the rural area. This year's chapter focuses on two major endeavors: 1) the Annexation Initiative, and 2) Transition Planning and Regional/Urban/Rural Service Budget Projections. With considerable progress on the horizon, greater emphasis on county internal transitional planning will be key in 2007 as larger annexations begin to occur in 2008 and 2009. Through these endeavors, the county is working toward a transformation that, when accomplished, will contribute to the its long term financial stability, enable the citizens of the urban area to receive the expected levels of urban services, and make the regionally adopted land use vision set forth in the Countywide Planning Policies (CPPs) a reality.

While all of these endeavors are to a certain degree interrelated, this chapter is organized in a manner which provides separate in-depth discussions of each. The chapter begins with the Annexation Initiative; including background information, a progress report on past years' activities, and anticipated annexation tasks and activity in 2007. The ensuing discussion focuses on Transition Planning and the use of tools including the

Regional/Urban Rural Service Budget Projections and Savings Model to plan for and achieve savings through annexations. This section covers how the county allocates revenue and expenditures by service area responsibility; presents 2007 regional/urban/rural budget projections; forecasts savings anticipated from the continued implementation of the Annexation Initiative. It also discusses other transitional planning efforts being pursued to support the transformation of the county to a rural and regional service provider. The chapter concludes with work program activities planned in 2007 for Regional Governance Transition as a whole.



**Figure 2: Remaining Urban Unincorporated Communities (PAAs)
2004 Population Estimates**



The King County Annexation Initiative (AI) is a multi-year initiative intended to accelerate the pace of the annexation of urban areas to realize the land use and service vision set forth in GMA and CPPs. This vision calls for the county to be the regional and rural service provider and for cities to provide services in urban areas. Correspondingly, attainment of this vision will help alleviate the county's general fund crisis by significantly reducing the areas in which the county is responsible for providing local services. As residents in urban areas migrate to city governance via annexation or incorporation, the county will be able to focus its limited resources on regional and rural services. Commenced in 2004, the AI provides specific staff and financial resources to

work with King County cities and urban unincorporated communities to move ahead with annexation. The focus of the effort is on the 10 largest remaining unincorporated areas, commonly referred as potential annexation areas (PAAs) as shown in Figure 2 above.

Achieving Regional Land Use and Service Vision: The CPPs, as required by GMA, call for county government to be the regional and local rural service provider and for cities to be providers of local service in all urban areas — and for this transition to be accomplished by 2012. This land use vision and transfer of local service responsibility is important because cities have greater ability to fund urban local services than does the county and thus are able to preserve the quality of local services to urban communities. However, nearly ten years after adoption of the county’s first Growth Management Act (GMA) comprehensive plan and ratification of the regionally adopted Countywide Planning Policies (CPPs), the county found itself responsible for providing local government services to 218,000 residents living in the communities which comprise the remaining urban unincorporated areas of the county.

The continued existence of a large unincorporated population was cause for concern on two accounts. First, the pace of annexation and/or incorporation was not occurring at a rate that would realize the transference of residents to city governance within the CPP 20-year planning horizon. Second, the ongoing need for the county to utilize general fund regional revenues to subsidize the costs of local services in the urban unincorporated areas was further complicating the county’s ability to provide for its mandated regional and rural service over the long run. It became imperative that the county take some type of action.

Greater Fiscal Stability and Annexation: As shown in Table 1 below, the PAAs currently do not generate sufficient local revenues to cover the cost of providing local services through the county’s Current Expense (CX) fund. Urban unincorporated local service expenditures in 2007 are estimated at nearly \$46.3 million, while supporting local revenues are estimated at \$22.9 million. The resulting budget gap is \$23.4 million. In order to close the gap between urban unincorporated revenues and expenditures, often referred to as the “urban subsidy”, the county must expend a corresponding amount of its regional revenues to maintain basic urban unincorporated services. The expenditure of regional revenues on urban unincorporated services comes at the direct expense of mandated regional and rural services. Thus, annexation, if followed by corresponding local service budget reductions, will provide significant budget relief for regional and rural services supported through the CX Fund as county departments are rescaled in response to the reduced service responsibility.

Table 1
General Fund (CX) Summary 2007 Local Services Budget
(in millions)

General Fund	Total Unincorporated King County	Total Urban Local	Total Rural Local
Revenues	\$36.9	\$22.9	\$14.0
Expenditures	\$80.1	\$46.3	\$33.8
Ending Fund Balance	(\$43.2)	(\$23.4)	(\$19.8)

Outyear projections of the General Fund continue to show a cyclical deficit between the county's major CX revenue sources and the increasing cost of our current service levels. Table 2 shows the county's CX fund runs a deficit for urban unincorporated and rural service budgets while there are sufficient regional revenues to fund regional expenditures. As noted above, the revenue shortfall is made to "balance" with the reallocation of *regional revenues* to the unincorporated area, thus reducing the amount of money available for mandated regional services. Table 2 also depicts the magnitude of the county's current contract service obligations. These contracts constitute a significant portion of the local urban service work currently performed by various county departments in cities.

Table 2
2007 Regional, Contract, and Local Budget Allocation -- CX Fund
(In millions)

General Fund	General Fund Total	Regional Services	Contract and Grant Services	Total Unincorporated King County	Urban Local Services	Rural Local Services
Beginning Fund Balance	\$105.3	\$105.3				
Revenues	\$609.0	\$472.8	\$99.3	\$36.9	\$22.9	\$14.0
Expenditures	\$627.2	\$447.9	\$99.3	\$80.1	\$46.3	\$33.8
Ongoing annual surplus/(deficit) and no reserves	\$87.1	\$130.2	\$0.0	(\$43.2)	(\$23.4)	(\$19.8)

Annexation Initiative - Progress to Date

Year One – Commencement: With the initiation of the AI, the Executive engaged the region and impacted cities and communities individually in discussions as to the importance of accelerating the pace of annexations and incorporations. New interest by cities in considering potential annexation area (PAA) designation and eventual annexation of the West Hill and Highline/Boulevard Park/White Center areas were notable steps forward. In addition, King County's legislative work in Olympia raised the visibility of the annexation as an issue which increased the understanding of the obstacles to annexations and resulted in funding for a state study on annexation challenges. This study, completed in December 2004 by the state Department of Community, Trade and Economic Development, provides a solid basis for state-level dialog.

In September 2004, the County Council adopted Motion No. 12018 approving the vision, goals and policies to guide the Initiative, as well as the 2005 work plan. The Motion directs that the allocation of annexation incentive funds reflect achievable savings to the General Fund facilitated by that annexation or incorporation. Fulfilling this requirement requires significant effort to identify the specific financial and operational consequences for each county department providing local urban services that will occur upon annexation or incorporation of any or all of the remaining unincorporated urban areas.

Year Two – Dialog with Cities and Residents and Assessment of Obstacles to Annexation: The second year of the Annexation Initiative is best described as the year of assessment. The following county funded governance studies and/or community processes and analysis were

undertaken or completed: West Hill Governance Options Assessment; North Highline Incorporation Feasibility Study; Kirkland Level of Service Analysis; East Renton citizen advisory group and community meetings; and, Fairwood Incorporation Feasibility Analysis and Cost of a Renton Annexation of the East Renton, Benson Hill, and greater Fairwood PAA. In addition to these county studies and community-based efforts, the Cities of Kirkland, Renton, Seattle, Kent, Burien, and Issaquah undertook their own efforts to assess the cost of annexing their respective potential annexation areas (PAAs). All of these assessment and planning efforts helped lay the groundwork for earnest discussions and future governance change. A major milestone for the Initiative occurred when the city of Renton declared the West Hill/Skyway communities as a PAA in late 2005.

The second year of the AI also saw the completion of the first annexation interlocal agreement under the AI and Council Motion for the annexation of Klahanie and South Cove/Green Point to the City of Issaquah. The question of annexation was then put to the voters of Klahanie and South Cove/Greenwood Point in the November 2005 general election. The voters in both areas overwhelmingly approved annexation, but the companion measure to assume the city's outstanding indebtedness did not fare as well. While the debt assumption measure passed in South Cove/Greenwood Point, the measure did not receive the required 60 percent approval in Klahanie. In early December, the City Council decided to move ahead with the annexation of South Cove/Greenwood Point, but by a 4-3 vote rejected the idea of resubmitting the annexation and bonded indebtedness to Klahanie voters at a special election in February. This decision effectively halted progress on annexation of Klahanie. The city and county have not signed the approved ILA and are discussing alternatives. In the meantime, the county and city have worked together to accomplish the transfer of South Cove facilities to Issaquah. The South Cove/Greenwood Point area has approximately 3,700 unincorporated residents. The annexation of the South Cove/Greenwood Point area was effective on March 2, 2006.

Year Three – Community Engagement and Action by Cities: Based on the significant amount of assessment work undertaken in year two, 2006 was focused on helping residents better understand their governance options; supporting community groups pursuing incorporation or annexation; and developing interlocal agreements with cities to establish the terms and timelines for annexation. Early in 2006, the Executive prioritized efforts to complete the incorporation study and public hearing process in Fairwood; to support community efforts for annexation in East Renton and putting the North Highline communities on a path towards annexation through PAA designation by a city. However, given legislative action at the state level, the priorities expanded to include accelerated dialog with Renton, Federal Way, and Auburn.

Following the completion of the Fairwood Incorporation Feasibility Study in December 2005, a resident group submitted a proposal to the King County Boundary Review Board to create a new City of Fairwood that would encompass the eastern portion of the Fairwood PAA. The BRB moved forward with its public hearing process on the boundaries and question of incorporation. Although the BRB recommended against the Fairwood incorporation proposal, under state law the proponents of incorporation could go forward with an election because the size of the proposed incorporation exceeded 7,500 in population. The incorporation proponents did move forward with an election on September 19, 2006. By a relatively narrow margin, the proposed incorporation measure was defeated. Because the support for incorporation did exceed 40 percent, the

proponents may seek that the measure be put forward again for a vote. At the time of printing, there was no indication as to whether the proponents would request a second election or not.

The incorporation effort in the Fairwood PAA has effectively “split” the unincorporated area into two large community areas, the incorporation area and the remainder, as the governance preferences of the communities are not uniform. The AI worked with residents outside of the incorporation area, now referred to as the Benson Hill Communities, to identify their governance concerns and preferences on a standalone basis. Based on these efforts, the Benson Hill Communities group is actively collecting signatures to annex to Renton.

In the East Renton PAA, a similar division of communities has occurred based on residents’ presumed annexation preferences. In 2006, the Washington State Boundary Review Board approved an annexation proposal submitted by the City of Renton for approximately 65 percent of the PAA territory. The boundaries of the annexation proposal were established by a citizens’ group, called C.A.R.E., that submitted an annexation petition to the City of Renton. The city will now send the proposal to the ballot for all registered voters living within the petition area to vote on the annexation.

In addition to responding to residents requests to move forward in Fairwood and East Renton, the Executive actively pursued a governance solution in 2006 for the North Highline PAA, the only unincorporated area that has not been designated by a city for annexation. In March, the Executive signed a memorandum of understanding with the executive branches of the City of Seattle and the City of Burien to work with the residents of North Highline to find a governance solution for the entire community, either through full-annexation by one city or a split-annexation. The parties agreed on a process and timeline for annexation that includes three major milestones: potential annexation designation in 2006, vote or other form of resident decision in 2007, and annexation by March 2009. To reach these target dates, the parties completed an extensive evaluation and stakeholder engagement process to better understand residents’ goals, concerns and preferences for annexation, as well as the implications of annexation for special district governments and their rate payers. The results of this process did not lead to a clear solution for the annexation of North Highline. However, the cities and county continue to work collaboratively toward reaching potential annexation designation by the end of the year.

The Executive’s PAA specific accomplishments in 2006 were complimented and elevated by successful work with county and city associations, state and local elected leaders, and others to change state statute to provide new funding sources to ease the cost of annexation. The state’s adoption of legislation (Substitute Senate Bill 6686) to financially support annexation dramatically improved the economics of annexation for many King County cities. The Sales/Use Tax Credit for Annexation Statute provides a credit against the state sales/use tax generated in the area to be annexed and the annexing city of up to 0.1 percent for 10,000 people and up to 0.2 percent for an annexed area with a population greater than 20,000. Within these parameters, the credit received is equal to the difference between the city’s cost to provide, maintain and operate municipal services for the annexed area and the general revenues that the cities would otherwise expect to receive from the annexed area. Eligible cities receive the credit for a period of ten years from the date of annexation. Cities must annex before January 1, 2010 to be receive the credit. Seattle is not eligible at this time for the state tax credit regardless of their annexation actions.

Accordingly, the cities of Federal Way, Auburn and Kent have demonstrated a renewed interest in working with the Executive to move forward with the annexation of their respective PAAs. Prior to passage of this state legislation, these cities had limited participation in the AI as the cities' financial deficit from annexation was too great an obstacle. The City of Renton, a key proponent for the legislation, has been an active partner with King County since the AI's inception and the legislation has cleared the path for Renton to take a proactive approach towards annexation.

While the state sales and use tax credit addresses much of the ongoing fiscal challenge of annexation identified by cities, the cities note the continued need for county annexation incentive funds to help redress one time transition costs associated with annexation of these major areas. In addition, the cities reiterate the need for King County to continue to act as a catalyst and leader for pre-annexation activities in the urban unincorporated areas.

The advent of a new fiscal tool for cities along with the significant community outreach and analysis accomplished in the Initiative's first two years, increases the probability of timely success of the county's Annexation Initiative. The accumulated progress of the initiative is demonstrated by the Executive's development of draft interlocal agreements (ILAs) with the cities of Renton, Federal Way and Auburn. The draft agreements are still subject to negotiation and ultimately must be approved by the King County Council and the city councils of the respective cities.

These agreements will address five out of the original ten potential annexation areas targeted by the Annexation Initiative which, if approved, will have a clear path to city status, should unincorporated residents support annexation. In terms of population, the agreements would provide for the annexation of over 100,000, approximately 45 percent of the residents in residents in urban unincorporated King County.

Most notably, the Executive and the City of Renton have proposed a timeline and agreement for annexation of up to 65,000 people in the East Renton, West Hill, Benson Hill and Fairwood potential annexation areas by 2009 assuming the Fairwood incorporation does not move ahead. The proposed ILA would provide the City of Renton with \$4.1 million in General Fund incentives; \$1.5 million of REET incentives, and \$2.25 million in road improvements in the Renton PAAs if all annexations are completed by 2009. For the Federal Way PAAs totaling nearly 22,000 residents, the ILA would provide for \$2 million of General Fund Incentives; \$500,000 of REET incentives; and \$1 million in Road improvements if the annexations are completed by 2009. For the Auburn agreement addressing annexing annexation of approximately 15,000 residents by early 2008, incentive funds would total \$1 million from the general fund incentive reserve and \$500,000 of roads improvements. The following table illustrates the amounts and phasing of these commitments, should the agreements be approved by the King County Council and the respective city councils. It is important to note that these proposed agreements would earmark all but \$2.65 million of the incentive funds originally reserved for the Annexation Initiative.

Table 3
Proposed Interlocal Agreements
Annexation/Incorporation Schedule and Allocation of Incentive Funds

	General Fund Incentive Reserve	REET Incentive Reserve	Roads Incentive Reserve
Renton Pre Annexation/Transition Activities	200,000	50,000	94,000
East Renton (election Feb 07/eff March 07)	550,000	1,150,000	-
Fairwood Incorp or Annexation (effective 2009)	500,000		725,000
Auburn (election Nov 07/effective March 08)	1,250,000	-	500,000
West Hill (Election 2008/Effective 2009)	1,900,000	300,000	1,000,000
Benson Hill (Election 2007/Effective 2008)	950,000		500,000
E Federal Way (Election 2007/Effective 2009)	2,000,000	500,000	1,000,000
<i>Subtotal</i>	7,350,000	2,000,000	3,819,000
TOTAL RESERVE	10,000,000	2,000,000	4,005,000
<i>Remainder</i>	2,650,000	-	186,000 *

*King County Roads Services division is proposing to use the remaining funds to complete a NPDES Mapping project that would benefit annexing cities.

With the proposed ILAs for half of the major urban PAAs as well as significant progress on achieving PAA designation for the North Highline area, the third year of the Initiative sets the stage for a very active fourth year work program.

2) Transition Planning and 2007 Regional/Urban/Rural Service Budget Projections update

To meet the dual objectives of the Annexation Initiative: implementation of the state Growth Management Act's county service vision and to secure greater financial stability in the county's general fund by reducing urban local service expenditures, the county employs two strategies. The first strategy is to engage King County cities and urban unincorporated residents in an active dialog on annexation as the previous section details. The second strategy, covered in this section, is internal to the county and addresses the following transition planning questions:

- How do county revenues and expenditures align in different service areas: regional, contract, and local urban and rural currently?
- How will annexation or incorporation affect the current balance of revenues and expenditures?
- What steps will the county need to take to secure fiscal benefits as local urban service responsibilities decrease?

Regional/Urban/Rural Service Budget Projections Exercise: The regional and local budget allocation exercise contributes to the analysis of all three transition planning questions. It is an important internal accounting of how the county allocates and tracks regional, rural and urban unincorporated expenditures and revenues. The annual allocation exercise provides a budgetary basis upon which to plan for or respond to change, whether that change is attributable to annexation activity, council priorities, or some other event such as voter initiative. The regional/local service budget projection exercise tracks the county's budget in terms of its different lines of business, be it regional, local, or contract. The 2007 iteration of the allocation represents the fifth year it has been undertaken and, as in past years, reflects refinements and modification of the methodology based both on improved data as well as the evolution of the Annexation Initiative.

This exercise has taken on additional importance as department and agency revenues and expenditures must also be tracked by PAA in order to realize savings associated with annexation or incorporation activity. In order to be an efficient and effective government, the county needs to have adequate allocation information to plan for changes in how it provides local service. For example, the PAA level information can assist in identifying how annexation may impact the location of facilities, programs, service districts, or the amount of CX transfer to agencies such as the Department of Development and Environmental Services (DDes) and Parks. In addition, the annual exercise provides baseline data for looking at changes in regional and rural service levels over time.

Financial Analysis by Major Potential Annexation Area: Extending the allocation analysis to individual urban unincorporated areas was a major step forward in the 2005 proposed budget. The effort to refine the analysis continued for the 2006 and 2007 estimates. In 2006, agencies continued to improve their workload indicator data. The use of agency indicator data, as opposed to other agency or population-based "proxies" for costs, has improved the allocation's accuracy.

Three new urban unincorporated areas are identified in the tables as subsets of the existing 10 PAAs.

1. The Fairwood Potential Annexation area is divided into the Fairwood Incorporation Area and the Benson Hill Communities. This was done in response to the September 2006 Fairwood Incorporation election. Residents of the Benson Hill Communities are gathering signatures to petition the City of Renton for an election in 2007.
2. The East Renton PAA is now made up of the East Renton Preserve Our Plateau annexation, which will be on the February 2006 ballot and the remaining area.
3. Auburn's West Hill data has been identified as an area separate from the "Other Urban Islands" in response to Auburn's intention to annex the West Hill area of Auburn as well as the current Lea Hill PAA.

Table 4 depicts revenues and expenditures for CX funds for these urban unincorporated areas.

Table 4
2007 General Fund (CX) Local Service Revenues and Expenditures
by Major Urban Potential Annexation Area
(Includes Criminal Justice sales tax revenues)
(In millions)

General Fund	Klahanie	Finn Hill	Renton East - POP	Renton East Remainder	West Hill	North Highline	Eastgate	Kent NE	Lea Hill	East Federal Way	Fairwood Inc.	Benson Hill Communities	Auburn West Hill	Other Urban Islands
Revenues	\$0.9	\$3.3	\$0.1	\$0.2	\$2.0	\$4.2	\$0.4	\$2.3	\$0.8	\$1.7	\$2.7	\$2.2	\$0.3	\$1.7
Expenditures														
Capital Improvement Program	\$0.1	\$0.2	\$0.0	\$0.0	\$0.1	\$0.2	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.1	\$0.0	\$0.1
General Government	\$0.2	\$0.5	\$0.0	\$0.0	\$0.2	\$0.5	\$0.1	\$0.3	\$0.1	\$0.3	\$0.4	\$0.2	\$0.1	\$0.2
Health & Human Services	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.1	\$0.0	\$0.1	\$0.1	\$0.0	\$0.0	\$0.0
Law, Safety, & Justice (excluding Sheriff)	\$0.1	\$0.7	\$0.0	\$0.0	\$0.8	\$2.4	\$0.1	\$0.4	\$0.2	\$0.6	\$0.6	\$0.4	\$0.1	\$0.2
Sheriff	\$0.5	\$3.3	\$0.1	\$0.2	\$3.7	\$8.4	\$0.4	\$1.7	\$1.2	\$2.6	\$2.9	\$1.8	\$0.4	\$1.9
Other Agencies	\$0.1	\$0.2	\$0.0	\$0.0	\$0.1	\$0.2	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.0	\$0.1
Parks/DDES	\$0.1	\$0.3	\$0.0	\$0.0	\$0.2	\$1.6	\$0.0	\$0.2	\$0.1	\$0.7	\$0.1	\$0.7	\$0.1	\$0.8
Underexpenditures	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)
Total Expenditures	\$1.0	\$5.1	\$0.1	\$0.4	\$5.1	\$13.3	\$0.6	\$2.9	\$1.9	\$4.4	\$4.2	\$3.4	\$0.7	\$3.4
Surplus/(deficit)	(\$0.1)	(\$1.8)	(\$0.1)	(\$0.1)	(\$3.1)	(\$9.0)	(\$0.2)	(\$0.5)	(\$1.0)	(\$2.7)	(\$1.5)	(\$1.2)	(\$0.4)	(\$1.7)

East Renton Preserve Our Plateau, West Hill, North Highline, Lea Hill, East Federal Way, Fairwood Incorporation area, Benson Hill Communities and Auburn West Hill are actively engaged in discussions and direct efforts to become part of an adjoining city or incorporation. As depicted in Table 4, these areas account for nearly \$33.8 million, or 72% of the county's expenditures for local services in the Current Expense fund. They are also nearly 46 percent of the population of the ten major PAAs. Successful annexation or incorporation for these areas alone would present marked progress under the AI and result in substantial opportunities for creating savings within the Current Expense Fund. However, it is important to note that estimated costs are unlikely to equal actual savings as these costs figures include fixed and indirect costs that will not necessarily decline with changes in local service provision.

Tables 5 and 6 below show the non-CX funds allocation by local service function and by PAA. At the total fund level, the non-CX funds are required by law or county policy to balance. However, at the PAA allocation level, revenues and expenditures may not balance as they vary year to year. OMB has continued to work with departments to refine these allocations. The Surface Water Management Fund was revised to include only SWM Fund 1211, this method more accurately reflects the organizations non-regional work in the unincorporated areas. The Roads Fund includes the operating and CIP budget allocations for 2007 and refines the CIP allocations and reconciliation of the accelerated revenues.

Table 5
2007 General Fund (CX) Local Service Revenues and Expenditures by Major Urban
Potential Annexation Area
(Includes Criminal Justice sales tax revenues)
(In millions)

	2007 Proposed Budget	Regional	Contract & Grants	Total Unincorporated King County	Urban Unincorporated King County	Rural King County
SURFACE WATER MANAGEMENT AND RURAL DRAINAGE						
Beginning Fund Balance	\$1.4					
Revenues	\$23.4	\$0.8	\$1.5	\$21.1	\$10.5	\$10.6
Expenditures	\$24.1	\$0.8	\$1.5	\$21.9	\$6.0	\$15.9
Surplus/(deficit)	(\$0.8)	\$0.1	\$0.0	(\$0.8)	\$4.5	(\$5.3)
Other Fund Transactions	\$0.4					
Ending Undesignated Fund Balance	\$1.0					
DEVELOPMENT AND ENVIRONMENTAL SERVICES FUND						
Beginning Fund Balance	\$12.7					
Revenues	\$31.6	\$0.0	\$0.0	\$31.6	\$17.2	\$14.5
Expenditures	\$33.2	\$0.0	\$0.0	\$33.2	\$18.0	\$15.2
Surplus/(deficit)	(\$1.5)	\$0.0	\$0.0	(\$1.5)	(\$0.8)	(\$0.7)
Reserves	\$3.8					
Ending Undesignated Fund Balance	\$7.3					
PARKS AND RECREATION						
Beginning Fund Balance	\$2.5					
Revenues	\$22.1	\$18.0	\$0.0	\$4.1	\$3.7	\$0.4
Expenditures	\$23.1	\$17.5	\$0.0	\$5.6	\$3.6	\$2.1
Surplus/(deficit)	(\$1.0)	\$0.5	\$0.0	(\$1.5)	\$0.1	(\$1.7)
Other Fund Transactions	\$0.5					
Ending Undesignated Fund Balance	\$2.0					
REET 1 and 2						
Beginning Fund Balance	\$7.1					
Revenues	\$14.9	\$0.0	\$0.0	\$14.9	\$9.5	\$5.4
Expenditures	\$20.7	\$20.5	\$0.0	\$0.2	\$0.1	\$0.1
Surplus/(deficit)	(\$5.8)	(\$20.5)	\$0.0	\$14.7	\$9.4	\$5.3
Reserves	(\$0.3)					
Ending Undesignated Fund Balance	\$1.0					
COUNTY ROAD FUND						
Beginning Fund Balance	\$3.1					
Revenues	\$141.7	\$4.9	\$15.2	\$121.6	\$54.1	\$67.5
Expenditures	\$143.3	\$3.8	\$15.2	\$124.3	\$62.7	\$61.6
OFT's	\$0.2					
Ending Undesignated Fund Balance	\$1.7	\$4.4	\$0.0	(\$2.7)	(\$8.6)	\$5.9

Table 6
Local Service Budgets for Non-CX funds by PAA
(In millions)

	Klahanie	Finn Hill	Renton East – POP	Renton East Remainder	West Hill	North Highline	Eastgate	Kent NE	Lea Hill	East Federal Way	Fairwood Incorporation	Benson Hill Communities	Auburn West Hill	Other Urban Islands
Non CX Funds														
SURFACE WATER MANAGEMENT AND DRAINAGE														
Revenues	\$0.5	\$1.7	\$0.0	\$0.1	\$0.7	\$1.6	\$0.2	\$1.1	\$0.5	\$0.9	\$1.1	\$0.9	\$0.2	\$1.0
Expenditures	\$0.3	\$1.0	\$0.0	\$0.1	\$0.4	\$0.9	\$0.1	\$0.7	\$0.3	\$0.5	\$0.6	\$0.5	\$0.1	\$0.6
Surplus/(deficit)	\$0.2	\$0.6	\$0.0	\$0.0	\$0.3	\$0.7	\$0.1	\$0.4	\$0.2	\$0.4	\$0.5	\$0.4	\$0.1	\$0.4
DEVELOPMENT AND ENVIRONMENTAL SERVICES FUND														
Revenues	\$0.1	\$1.5	\$0.0	\$0.1	\$0.7	\$1.9	\$0.3	\$0.9	\$1.0	\$0.9	\$0.5	\$0.5	\$1.2	\$7.4
Expenditures	\$0.1	\$1.6	\$0.0	\$0.1	\$0.7	\$2.0	\$0.3	\$1.0	\$1.1	\$1.0	\$0.5	\$0.5	\$1.3	\$7.8
Surplus/(deficit)	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)	(\$0.4)
PARKS & RECREATION														
Revenues	\$0.0	\$0.2	\$0.0	\$0.0	\$0.3	\$1.8	\$0.0	\$0.2	\$0.0	\$1.0	\$0.1	\$0.0	\$0.0	\$0.0
Expenditures	\$0.1	\$0.1	\$0.0	\$0.0	\$0.1	\$1.7	\$0.0	\$0.2	\$0.0	\$0.7	\$0.0	\$0.7	\$0.0	\$0.0
Surplus/(deficit)	(\$0.1)	\$0.1	\$0.0	\$0.0	\$0.1	\$0.2	\$0.0	\$0.0	\$0.0	\$0.4	\$0.1	(\$0.7)	\$0.0	\$0.0
COUNTY ROAD FUND														
Revenues	\$1.7	\$9.4	\$0.0	\$0.6	\$2.9	\$6.7	\$1.4	\$4.6	\$2.2	\$4.2	\$6.2	\$2.3	\$0.0	\$11.9
Expenditures	(\$0.1)	\$4.1	\$0.3	\$0.4	\$4.6	\$3.7	\$0.9	\$4.5	\$4.0	\$4.4	\$6.6	\$4.4	\$2.2	\$22.6
Surplus/(deficit)	\$1.7	\$5.3	(\$0.3)	\$0.2	(\$1.7)	\$3.0	\$0.5	\$0.1	(\$1.8)	(\$0.2)	(\$0.4)	(\$2.0)	(\$2.2)	(\$10.7)
REET 1 & 2														
Revenues	\$0.5	\$1.5	\$0.0	\$0.1	\$0.4	\$0.7	\$0.2	\$0.7	\$0.4	\$0.5	\$1.0	\$0.5	\$0.6	\$2.3
Expenditures	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Surplus/(deficit)	\$0.5	\$1.5	\$0.0	\$0.1	\$0.4	\$0.7	\$0.2	\$0.7	\$0.4	\$0.5	\$1.0	\$0.4	\$0.6	\$2.3

Projecting Future Savings to the King County General Fund from Accelerated Annexation and Incorporation:

The 2007 regional subsidy for the remaining urban unincorporated areas has been estimated at \$23.6 million for 2007. To generate a net fiscal benefit from urban annexations, the county must be able to reduce expenditures by more than the amount of revenue lost when areas transition to incorporated status. The remaining major urban PAAs generate approximately \$23.2 million in local revenues that will be forgone by the county upon annexation as opposed to \$46.8 in allocated local service costs. Thus, the county will need to cut more than \$23.2 million in local expenditures, or approximately 50 percent of the total allocated local service expenditures to be financially neutral. To generate a fiscal benefit for the General Fund, budget reductions over and above 50 percent *in aggregate* will have to be targeted.

Recognizing that local service costs have both direct and indirect cost components (overhead, administrative, and general government costs), reductions will need to be made across all categories to achieve the financial savings necessary to promote long term fiscal stability. Achieving this level of savings presents a high bar and will require fiscal discipline. Motion 12018 directed the executive to provide specific estimates of savings by department for each proposed annexation interlocal agreement. In response, in 2005 the Office of Management and Budget developed a savings project model and continues to refine the model. The purpose of the model is to provide a range of savings estimates resulting from annexation dependent on the level of budget reductions that are implemented post annexation.

The model that assumes lower savings rates in the initial years, increasing to a maximum by the 6th year. The savings target percentages are different for the various functional areas to address the variation in operational models and cost structures. The methodology also provides high and low savings scenarios to present benchmarks for assessing the potential payback periods for incentive payments made to cities upon annexation. Instead of modeling savings for all PAA in aggregate, each PAA is being evaluated individually reflecting the likely timing of annexation and the revenue and service cost characteristics of the area.

Based on the work to date with various cities and unincorporated citizens groups, the Tables 7 and 8 below model the nominal savings impacts of annexation in accordance with the following working timelines for potential annexations and incorporations:

Potential Annexation Area and Effective Date

- East Renton Preserve Our Plateau -- March 1, 2007
- North Highline -- 2009
- Fairwood Incorporation or Annexation -- 2009
- West Hill/Sky Way -- 2009
- Auburn West Hill and Lea Hill – 2008
- East Federal Way – 2009
- Benson Hill Communities – 2009

Issaquah, Kirkland, Kent and Bellevue have not provided a timeframe for moving forward with the remaining PAAs of Klahanie; Finn Hill-Juanita-Kingsgate; Kent/Panther Lake; and Eastgate respectively so they are not incorporated in to the model at this time.

Table 7
Projected General Fund Savings Based on Phased Reductions
(in nominal dollars)
Lower Savings Rate Scenario

<i>PAA</i>		<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Federal Way	2009	\$0	\$0	(\$824,000)	(\$630,000)	\$68,260	\$660,000
Fairwood - Incorporation	2009	\$0	\$0	(\$1,930,000)	(\$1,790,000)	(\$1,170,000)	(\$641,000)
Fairwood PAA - Benson Hill	2008	\$0	(\$1,540,000)	(\$1,440,000)	(\$952,000)	(\$561,000)	(\$134,000)
Preserve Our Plateau	2007	(\$40,000)	(\$36,200)	(\$14,500)	\$5,940	\$23,830	\$25,770
West Hill	2008	\$0	(\$881,000)	(\$655,000)	\$79,890	\$731,400	\$1,443,000
North Highline	2009	\$0	\$0	(\$1,380,000)	(\$727,000)	\$1,397,000	\$3,223,000
Lea Hill	2008	\$0	(\$457,000)	(\$384,000)	(\$112,000)	\$122,100	\$375,700
Auburn West Hill	2008	\$0	(\$40,000)	(\$36,200)	(\$14,500)	\$5,940	\$23,830
<i>Total Net Impact</i>		<i>(\$40,000)</i>	<i>(\$2,954,200)</i>	<i>(\$6,663,700)</i>	<i>(\$4,139,670)</i>	<i>\$617,530</i>	<i>\$4,976,300</i>

Table 8
Projected General Fund Savings Based on Phased Reductions
(in nominal dollars)
Higher Savings Rate Scenario

<i>PAA</i>		<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Federal Way	2009	\$0	\$0	\$970,400	\$1,510,000	\$2,356,000	\$2,494,000
Fairwood – Incorporation	2009	\$0	\$0	(\$163,000)	\$302,100	\$1,030,000	\$1,113,000
Fairwood PAA – Benson Hill	2008	\$0	(\$267,000)	\$84,520	\$683,100	\$741,800	\$1,434,000
Preserve Our Plateau	2007	\$12,790	\$27,470	\$52,730	\$56,060	\$85,190	\$90,200
West Hill	2008	\$0	\$1,258,000	\$1,879,000	\$2,752,000	\$2,912,000	\$3,916,000
North Highline	2009	\$0	\$0	\$4,299,000	\$6,033,000	\$8,588,000	\$9,067,000
Lea Hill	2008	\$0	\$280,800	\$491,000	\$812,600	\$862,700	\$1,234,000
Auburn West Hill	2008	\$0	\$12,790	\$27,470	\$52,730	\$56,060	\$85,190
<i>Total Net Impact</i>		<i>\$12,790</i>	<i>\$1,312,060</i>	<i>\$7,641,120</i>	<i>\$12,201,590</i>	<i>\$16,631,750</i>	<i>\$19,433,390</i>

The results generated by the model show the positive or negative change in the amount of regional revenue needed to cover the general fund expenditures allocated to each PAA for local services. The model reflects the assumption that budget reductions from reduced work loads due to annexations will be less than the allocated costs. If the number is negative, it means the regional subsidy amount to cover the allocated expenditures has increase. This reflects a scenario where the target savings are less than the forgone revenues and, in effect, the General Fund is worse off. If the number is positive, it shows the amount of regional revenues that are freed up for other purposes, making the General Fund better off.

The range between the low and high scenarios is large and is indicative of importance of the post annexation budget decisions to come as annexations take effect. It is realistic to assume that actual savings will be somewhere in between these two scenarios. Even in the low savings scenario, by 2012, the General Fund is slightly better off. Under the high savings, there is opportunity to make notable savings in the range of \$7 million annually in the early post annexation years and considerably more in later years as more annexations become effective greater operationally efficiencies are secured.

Key issues will be depth of savings expected from direct service providers such as Sheriff and cuts in transfers to Parks, DDES for Code Enforcement and Fire Marshall; as well as local health and human services transfers. Similarly decisions as to appropriate savings targets must be made for general government agencies that won't necessarily have a direct decrease in workload though their responsibilities for providing local services to urban unincorporated residents has dropped.

The East Renton Preserve Our Plateau annexation of approximately 4,800 residents is the only annexation that OMB is assuming with be effective in 2007. The City of Renton is intending that the question be asked of the voters in February 2007. Assuming a positive outcome, the annexation would be effective March 1, 2007. King County agencies have used this assumption in developing their 2007 budget proposals. The General Fund local service departments estimated no significant savings from this annexation given the size of the annexation and the need to serve the remaining 3,000 residents outside the annexation area. This is consistent with the models above. For the non-general funds providing local services to the area, forgone revenues are projected to be \$732,270 for the Roads Fund; \$165,875 for the Surface Water Management Fund; \$315,859 in DDES fees; and 108,432 in REET revenues. All of these agencies have adjusted expenses accordingly through a combination of direct expenditure savings and, if necessary additional program reductions, to maintain their overall financial plans.

Additional Transition Planning

Given that no major annexations are anticipated until 2008 and 2009, it has been difficult to proceed with specific operational transition planning at an agency level. With significant annexations on the horizon, examination of the effects of a Federal Way, Auburn, and several accumulated Renton annexations on direct local and indirect service agencies will be part of the 2007 work program. Greater detail on this effort and other transition planning efforts for 2007 are included in the final section of this chapter.

3. Regional Governance Transition 2007 Work Program: Continuation of Annexation Initiative, Transition Planning and Funding Request

The Executive will continue to make implementation of the Regional Governance Transition a priority in 2007, given both the significant financial benefits potentially generated to the county's CX Fund, and the substantial progress in meeting the goals of the State Growth Management Act and the CPPs. External efforts through the Annexation Initiative will focus on supporting cities in initiating elections and ensuring a smooth transition of services responsibilities. Community outreach and voter education will also continue to be a priority. In anticipation of annexations and incorporations in 2008 and 2009, the refinement and use of the Regional/Local Service Budgets exercise and related Savings Model will shift from tracking current spending and allocating incentive dollars to achieving savings from annexation and reallocating scarce county resources to meet future service responsibility challenges.

Successful implementation of the Annexation Initiative continues to be challenging and time consuming. The transfer of these areas to city status will occur over multiple years complicating efficient delivery of services to remaining areas. The fiscal implications for department and county overhead and internal service funds will result in overall savings as workload is decreased, but can also result in cost increases as fixed costs are spread over fewer agencies. Despite the challenge, the options for addressing the cyclical budget gap are limited and this work must be pursued because if successful, the savings over time to the CX Fund may be dramatic.

Annexation Initiative Work Program– Annexation Decisions, Implementation of ILAs, and Community Outreach

Though the Annexation Initiative was originally slated to be a three year initiative coming to closure in 2006, the challenge of accelerating annexations was greater than initially thought. Given the complexity of these governance decisions on the part of both cities and residents, it has taken longer than anticipated to garner agreement from cities to move forward with annexation with the support of urban unincorporated residents. However, with multiple ILAs in progress addressing five of the ten PAAs as 2006 comes to a close, the continued need for the Annexation Initiative and the focused staff and resources it provides is just as important today as in the Initiative's first year.

The AI staff group has developed considerable experience in its community outreach capacity in the last three years. With the objective of several PAAs being put forward for a vote in 2007, the ability of the Annexation Initiative staff group to provide factual and objective information about governance choices to the public will be important in the upcoming year.

Working with annexing cities, urban unincorporated resident, community groups, and King County departments on PAA specific transition issues and opportunities will also remain part of the AI regular work program. The ability to address critical transition issues is often paramount to a cities and/or communities decision to move forward with annexation. As opportunities arise, the county will continue to make strategic investments in communities where it would be a clear

benefit. Examples of this include facilitation of the county's ongoing work in the White Center Community Enhancement Initiative and new efforts in the Skyway/West Hill community. In addition, the Annexation Initiative is working with East Renton unincorporated area residents, the Four Creeks Unincorporated Area Council, and the City of Renton to develop a framework to provide appropriate community input in planning for development and growth.

The full work program for the Annexation Initiative in 2007 will include:

- ☐ Continued communication effort with urban unincorporated areas to improve residents understanding of the benefits of city status as opposed to remaining unincorporated;
- ☐ Cooperative city-county efforts on interim economic development; major capital projects in the PAAs; and joint planning activities to address differences in development standards to assist in the transition from county to city status.
- ☐ Development of ILAs with cities of Kirkland, Kent, and Burien and or Seattle for remaining PAAs;
- ☐ Implementation of proposed 2006 ILAs including joint community outreach efforts and transfer of county facilities;
- ☐ Representation of King County in Boundary Review Board proceedings;

Transition Planning and Regional/Urban/Rural Service Budget Projections Work Program

Transition planning occurs at two levels: responding to the immediate changes resulting from the annexation or incorporation of individual PAAs and longer term planning to modify operations in response to the loss of all urban unincorporated areas. In 2007, the county will pursue efforts at both of these levels using and refining the Regional/Urban/Rural Budget Projections and the Savings Model.

PAA specific Community Transition Planning Activities: In preparation for 2008 proposed annexations, more focused effort will be placed on operational transition planning for King County departments currently providing local services. Until now, the AI transition planning work has been at a broader level through the Regional/Local Service Budget Projection process. In 2007, the work will examine specific direct service workload reductions associated with any of the smaller annexations released to date along with the anticipated larger annexations of Lea Hill, Auburn West Hill, East Federal Way, and the Benson Hill Communities in 2008 and 2009. A secondary component of that analysis will consider what the likely effects will be on department and county administrative costs and county internal service fund. This analysis will examine specific impacts to general fund and non general funds from annexation.

The ease of reducing county expenditures varies by PAA. For areas such as North Highline and West Hill/Skyway that are relatively defined and stand alone from other unincorporated areas, it is easier to clearly identify dedicated expenditures that can be reduced upon annexation. However, due to the budget cuts King County has already implemented, many direct service departments have tried to increase efficiency by sharing local service resources over larger areas that cross PAA and rural area boundaries making it more difficult to easily reduce operating expenses and staffing levels when urban areas transfer. In urban PAAs that abut the rural area, King County direct local services departments will likely have to reorganize how they provide service to the remaining unincorporated areas in order to find savings. It is not as simple as reducing

expenditures and FTEs, as the same resources may be also serving an area that is still unincorporated. The challenge is increased given the lack of certainty as to timing of the effective date of annexations. Consequently, many direct service departments such as the Sheriff are developing long term operational plans that examine different annexation scenarios and how to best reorganize resources for greatest effectiveness and efficiency given different annexation alternatives.

Regional/Rural/Contract Longer Term Planning: When the land use vision for the county is achieved, King County's local service responsibilities will shift from providing urban and rural services to rural services alone. This shift of responsibility, in conjunction with loss of urban unincorporated revenues, requires the county to examine how to most effectively and efficiently provide rural local services and to reassess the degree to which the current local service delivery model matches future rural service needs. Analysis will be undertaken in 2007 to determine whether greater efficiency or efficacy may be achieved through an alternative rural service model.

A critical component of rural transition planning will be to understand the revenues and costs associated with the county's current service model. To this end, the Regional/Urban/Rural budget projections exercise will be valuable. Additional work will be completed in 2007 to refine the rural budget projections, similar to the work that was been completed for the urban areas over the last several years.

2007 transition planning will thoroughly examine the impact of decreased levels of direct service provision on direct expenditures as well as departmental overhead, countywide overhead, and internal service fund expenditures. The challenge is to identify maximum practicable savings in overhead as direct service expenditures are reduced.

Securing overhead savings is critical not only in terms of maximizing the financial benefits of the Annexation Initiative for the county, but also to remaining competitive in the delivery of new and existing contract services. The county will also continue to assess the implications of annexation on local contract services. The county continues to develop plans to offer competitive contract services to cities following annexation or incorporation. Consistent with county policy, these plans must incorporate full-cost recovery for the county.

2007 Funding Request

The Executive is proposing that the funding levels approved in the 2006 Adopted Budget for the Annexation Initiative staffing and operational costs be maintained in the 2007 budget with minor technical adjustments. Further, the Executive recommends that the Annexation Initiative incentive funds be maintained and aligned with the proposed interlocal agreements with the cities of Renton, Federal Way and Auburn. The remaining \$2.65 million of the CX Annexation Incentive Reserve should be held for use in the remaining agreements with the cities of Kirkland , Kent, and Seattle or Burien.

Progress is being made under the AI with at least four annexation elections anticipated in 2007. Therefore it is in the best interest of the county to maintain the momentum with the suburban cities and unincorporated residents. King County's ability to provide financial incentives is crucial to

the county's ability to promote accelerated annexations to cities. The provision of financial incentives as a one time investment on the county's part but has the potential to yield substantial financial benefits for the General Fund if targeted correctly and fiscal discipline is exercised in implementing post annexation budget reductions.